



Committed to the future of rural communities.

Indiana

Guaranteed Loan Program Lender Handbook



Revised: January 13, 2012

http://www.rurdev.usda.gov/rhs/sfh/GSFH_Information/GSFH_Specific.htm



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ATTENTION

Throughout the handbook you will notice: **EXTRA: Administrative Notice** located in many sections.

This is alerting you to an Administrative Notice published on this topic for further guidance and clarification. You can access these Administrative Notices from the following website: http://www.rurdev.usda.gov/rd-an_list.html

- Search through the list for the topic you are interested

Advantages & Benefits of GRH Financing



- No down payment: True 100% product
- No expensive monthly mortgage insurance: Clients can afford more!
(There is a .3% annual fee based on the average amortized principal balance for the upcoming year which will last for the life of the loan. Lenders will include this fee in borrowers' monthly mortgage payments. This is part of the guarantee fee, NOT mortgage insurance.)
- No cash reserves are required
- No credit score isn't fatal: Excellent for non-traditional credit histories
- Expanded qualifying ratios: 29/41%
Exceptions may be made to accommodate qualifying clients
- No asset limits: Clients may keep liquid cash savings and other investments
- NOT just for first time buyers: Anyone may qualify
- No purchase price limits: Clients may purchase home that meets their needs
- Loan up to 102% of the appraised value. The 2.0% upfront Guaranteed Fee may be added to loan amount regardless of appraised value. (101.5% on refinances of Rural Development direct or guaranteed loans with no cash out)
- No limitation on source of closing costs: 100% gifted closing costs or down payment assistance is allowed. Soft second mortgages are allowed for closing costs even if the total debt exceeds the appraised value of the property
- Repairs may be financed up to 100% of the appraised or "as improved" value.

- No limit on seller concessions to pay for closing costs and/or repairs. A Fannie/Freddie guideline is the 6% concession limit, so check with your secondary market.
- Competitive 30 year fixed interest rates
- Premium pricing and service release premium available
- No Rural Development prior approval of appraisers or builders
- Any lender may participate with formal Rural Development approval
- Prompt review of Guarantee Files: 24 - 48 hour turnaround time
- Lenders may charge normal and customary fees for their services
- Lenders may use their standard forms (Only 1 RD form is needed for a typical file: 1980-21)
- EXPAND YOUR MORTGAGE CUSTOMER BASE! Indiana has 92 counties and only 1 is entirely ineligible: Marion.
- GRH Loans are accepted in any Ginnie Mae I or II pool. They can be sold as a single loan or as part of a pool to Fannie Mae and Freddie Mac. Nationally, approximately 300 approved lenders are eligible to purchase GRH loans
- 6 Rural Development Area Offices and the State Office are available for training and outreach assistance
- RD's Guarantee provides better loss protection than private mortgage insurance (PMI)! MAXIMUM BENEFITS TO THE LENDER & CLIENT WITH LESS COST!



COMPLETE RURAL DEVELOPMENT INSTRUCTION 1980-D is available online:
<http://www.rurdev.usda.gov/regs/regs/pdf/1980d.pdf>

Print and keep!

Marketing Strategies

100% Guaranteed financing can help you grow your business by assisting many more clients. As a lender you are guiding individuals and families through the largest purchase of their lives. See how you can help your clients reach their homeownership, wealth building, debt reduction, and retirement planning goals with Guaranteed financing. If you never thought a mortgage could do so much.....keep reading.

SERVE THE MAJORITY OF YOUR CLIENTS WITH 100% GUARANTEED FINANCING!

- **GENEROUS INCOME LIMITS:**
"ADJUSTED" household income refers to the gross income applicant(s) earn minus eligible deductions. Lenders can easily qualify more clients with larger incomes for Guaranteed financing by utilizing eligible deductions, yet using the entire gross salary to qualify them for the house.
- **NO MAXIMUM PURCHASE PRICE LIMITS:**
Rural Development has financed properties as high as \$280,000. If the client(s) qualify with RD's flexible and expanded payment terms, then Rural Development can help. Educate your real estate partners to advertise 100% Guaranteed financing to sell more updated and new homes today.
- **MAXIMIZE CLIENTS' BUYING POWER!**
Rural Development allows 2-1-0 buydowns, Mortgage Credit Certificates (MCC's) through Indiana Housing and Community Development Authority (IHCDA), seller concessions, downpayment assistance, gifts, grants, FHLB assistance, etc. Layer the programs to help your clients get the best financing possible.
- **BE A TRUSTED ADVISOR!**
Buying a home is the largest asset and debt decision that a client can make. Be sure to examine all aspects of 100% Guaranteed financing for not only first time buyers, but move up homebuyers as well. Do they have debts to payoff, little to no retirement savings, college plans for their children, do they contribute to their 401(k)? There is a lot your clients can do with "downpayment money" that could be better utilized for other goals while your clients still get the home they want with the most affordable terms through 100% Guaranteed Rural Development financing!
- Use websites such as www.realtor.com or For Sale By Owner sites to identify properties that could be financed with the GRH program. Market YOUR services directly to the listing agent or seller.



Participating GRH Lenders

Any lender licensed in IN may originate the loans. However, GRH loan packages must be submitted to Rural Development by a participating underwriting lender.

Underwriting lenders must be approved by IN Rural Development or by the Rural Development National Office in Washington, D.C. Your local Rural Development office can supply you with an Approved Lender application checklist.

Eligible Rural Areas

- Property must be in an eligible rural area or community. Generally, these are communities of fewer than 20,000 persons outside of Metropolitan Statistical Areas (MSA's). Inside MSA's, communities of fewer than 10,000 persons are eligible, except that certain communities between 10,000 and 25,000 population are considered rural based on their distance from urban areas.
- To access eligible areas LOG ON: <http://eligibility.sc.egov.usda.gov>
- Left side under "Property Eligibility" Click on "Single Family Housing"
- Read Property Eligibility Disclaimer and click "Accept"
- If you have an address including zip code, enter it and then click on "Get Map" Your address will be mapped to its exact location along with a determination of eligibility.
- If you do not have an address, Click on "Indiana" on the U.S. map
- Click on the county which you are interested
- Light yellow areas are eligible, and dark orange areas are ineligible
- If you have problems accessing the website or pulling up a specific address, please call your local office for assistance.



Income Verification

There are two types of income that Rural Development must review:

- Adjusted Household Income
- Repayment Income (Gross Earnings)

Adjusted income limits for each county may be accessed online:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

- Under "Income Limit" on the left side, click on "Guaranteed"
- Under "SFH Guaranteed Loan Income Limits" click on "Indiana" The MSA's are listed alphabetically before the non-metropolitan counties
- Print and keep for future reference (The limits change once per year, usually in the spring.)
- Reference the "MOD-INC. GUAR. LOAN" line. They are arranged according to the number of household members: 1-4 and 5-8

What is "adjusted" income?

IT TRANSLATES INTO MORE CLIENTS QUALIFYING TODAY!

Adjusted income is the clients' GROSS annual income MINUS eligible deductions.

Guaranteed Financing In Action!

- Family of 4, children ages 3 & 9: \$75,000/yr. income
- Want to purchase a \$200,000 home in Bedford
- Monthly debts: car \$230, car \$300, student loan \$100, visa \$50, mastercard \$20, Best Buy card \$30 = \$730

DO THEY QUALIFY?

- \$75,000/yr. is OVER the adjusted income limit (\$74,050)
- 960 2 children x \$480 deduction
- 5,200 Daycare: \$100 week x 52 weeks
- \$68,840 "Adjusted Income"** →

**They
Qualify!!**

Won't the "adjusted" income hurt the client when determining how large a home they can buy or build?

NO! Lenders will use the GROSS income figure (\$75,000 in our example) for ratio and qualification purposes.

ON THE 1980-21 REQUEST FOR A SINGLE FAMILY HOUSING LOAN GUARANTEE:

- List the GROSS income (\$75,000) on line 2a.
- List the "ADJUSTED" income (\$68,840) on line 2b.

Definition of household income: The income of all adults (above age 18) that will be residing in the house. RD Instruction 1980-D pages 39-48 contain more detailed information.

Eligible Deductions:

Common adjustments to the gross income include:

1. \$480 deduction for each dependent under age 18
2. Verified childcare expenses: receipts from daycare, signed letters from babysitters, grandmothers, etc. stating weekly/monthly payment
3. \$480 deduction for disabled dependents age 18 or older
4. \$480 for a full-time student age 18 or older
5. \$400 deduction for any elderly family as defined by 1980.302(a) page 3
6. A deduction for the care of minors 12 years of age or under, to the extent necessary to enable a member of the family to be gainfully employed
7. A deduction of the amount by which the aggregate of the following expenses of the household exceeds 3% of the gross annual income:
Medical expenses for elderly or disabled households, and reasonable attendant care and auxiliary apparatus expenses for any disabled household members.

For greater detail please see RD Instruction 1980-D pages 43-44.

If you have questions regarding any expenses that you feel should qualify, please call your local RD office for further assistance. The eligibility website also has an income calculator which leads you through this calculation by asking questions about the applicant's household and income.



Repayment Income a.k.a. Gross Earnings

This is a separate calculation from the adjusted annual income. The repayment income will be the clients' GROSS ANNUAL INCOME.

Repayment income includes:

- All income that is considered to be stable and dependable.
- Income of the person(s) signing the promissory note.
Lender Note: If you have two people who will reside in the home, but only one of them is on your loan application you will calculate the "adjusted" income using BOTH incomes, but you will only use the gross income of the client on your application for "repayment" income.
- Income that is anticipated to last for at least 36 months.
- Income may be based on projected income when determining base earnings. However, most underwriters use historical information from the previous 24 months to determine projected income from overtime, profit sharing, bonus, tips, commissions, part time work, seasonal employment, unemployment compensation, and self-employment as per RD Instruction 1980.347 page 39.
- Historical income that is higher than the projected income (based on current wages and YTD earnings) must be explained and documented regarding the anticipated decrease in earnings.
- Non-taxable income such as child support or SSI may be grossed up based on the applicant's income tax bracket.
- Vehicle allowances provided by an employer for the applicant to acquire transportation are considered as income for both adjusted and repayment purposes. Count both the income to pay for the vehicle AND the vehicle debt in the ratios.
- Pending pay increases supported with written documentation that are scheduled to occur in the near future based on the VOE may be considered

for repayment purposes, or they may be viewed as a compensating factor if a ratio waiver is needed.

Income Documentation

LENDER'S MUST SUBMIT:

1. A written "Request for Verification of Employment" (on lender form or the equivalent HUD/FHA/VA or Fannie Mae form) AND
2. Most recent paycheck stub with YTD figures

OR

1. Most recent 30 day period of paycheck stubs or payroll earnings
2. W-2's for the previous 2 tax years
3. Telephone verification of employment

Please supply divorce decrees pertaining to property settlements, child support, and alimony to support the file.

Self-Employed Income Documentation

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 16)

Rural Development encourages the use of:

- * Fannie Mae Form 1084: "Cash Flow Analysis" and
- * Fannie Mae Form 1088: "Comparative Income Analysis" to document a trend analysis for the client's business.

The lender may use the Fannie Mae forms or any documentation that provides the same information.

How to treat business debts:

Net Profit + Depletion (item #12 on Schedule C) + Depreciation (item #13 on Schedule c or item #16 on Schedule F) = Repayment Income

Business-related debts treated in this manner will not be included in the debt to income ratios since they were accounted for in the calculation of repayment income.



Eligible Properties & Loan Purposes

- Existing or New Construction Dwellings
- Townhouses and Condos
- NEW Manufactured Homes
- Existing or New Modular Homes

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 29)

1. Townhouses and condominiums must be eligible for Fannie Mae, Freddie Mac, FHA, or VA financing. A First Right of Refusal in Condo documents and bylaws is ACCEPTABLE, as long as there is no discrimination involved in selling the property (i.e. the property is listed on the MLS, therefore anyone may submit an offer). RD offers more flexibility in financing affordable housing opportunities.
2. New Construction: End Loans and Permanent Financing Only. Lenders must underwrite and obtain the Rural Development Conditional Commitment prior to beginning construction for GRH loans involving a Construction Contract.
3. What may be financed for new construction?
New site loans, bridge loans, interim financing through construction process, 3.5% Guarantee fee, closing costs.
4. Property repairs and improvements on existing homes CAN be financed up to the "As-Improved" value of the property. If an escrow account is established in an amount 1.5 times the estimate for the repairs, a Loan Note Guarantee may be issued prior to the work being done.

EXAMPLE:

Purchase Price: \$115,000

As-Improved value: \$125,000

New roof and new front door: \$6,000 (\$6,000 times 1.5 to cover the escrow account equals the amount financed of \$9,000)

Closing costs to roll in: \$1,000

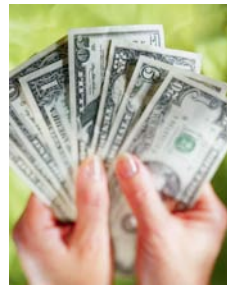
Total Loan = \$125,000 + Guarantee fee 2.0% = \$127,551.02

IT'S POSSIBLE FOR A BORROWER TO BRING NO MONEY TO THE TABLE!

NOTE: If the extra 50% (\$3,000) is not needed, it must be applied to the loan as a principal reduction. The borrower may not receive loan funds as cash back. If the borrower or the seller had contributed the extra 50%, and it is not needed, it is refunded to whoever contributed it.

(To figure the total loan including the 2.0% upfront fee, divide the total loan by .98. In this case, $\$125,000 / .98 = \$127,551.02$) See page 16 for further details.

5. All of the buyers closing costs, including pre-paid expenses may be financed up to 100% of the appraised value PLUS the upfront Rural Development guarantee fee of 2.0%. You may add the 2.0% into the loan regardless of appraised value! (just like in the above example)



Refinancing

Limited to refinancing existing Rural Development Guaranteed and Direct Loans only.

**EXTRA: Administrative Notice: Refinancing Single Family Housing Loans
Section 502 Direct and Guaranteed**

- Rural Development Direct 502 Loans *may* have subsidy recapture due. The recapture can be deferred (Rural Development maintains a lien and subordinates their mortgage) or it can be included in the payoff.
- If the client is a direct applicant refinancing into a guaranteed loan a 25% reduction of the recapture amount is offered for payoff rather than deferral.
- Loan Term must be 30 years
- Fixed interest rate below the current rate

- A 1.5% upfront guarantee fee must be paid to Rural Development (The lender will also be charged a .3% annual fee based on the average amortized principal balance for the upcoming year. Lenders may include this fee in borrowers' monthly mortgage payments.)
- Adjusted income limits and repayment ratios are the same as for an initial GRH loan.
- No flood certification; No property inspections required!
- CANNOT refinance debts other than existing Rural Development GRH loan, or the Direct 502 Loan
- Can add or delete borrowers
- Property must be owner occupied
- Maximum loan amount can not exceed the balance of the loan being refinanced, plus the 1.5% guarantee fee. Reasonable and customary closing costs, including funds necessary to establish the new escrow for taxes and insurance may be included
- The LTV can be up to 101.5% (based on the appraised value) for refinances if the 1.5% guarantee fee is included in the loan.



- A new appraisal is NOT required when refinancing only the unpaid principal on an existing GRH loan with the 1.5% guarantee fee. However, a new appraisal is required when refinancing a Direct 502 Loan or if interest and closing costs (including pre-paid expenses), are included in the new GRH loan. (GUS may not be utilized without a new appraisal.)

- No cash back (except for fees and costs paid out of pocket by the borrower, such as credit check and/or appraisal). The applicants may receive any escrow refund from the old loan.
- The property may be in an ineligible (non-rural) area because of eligible area delineation changes by RD since the original loan was made.



Minimum Loan Amount

NONE- Check with your investor.

Maximum Loan Amount

100% of the "As-Built" APPRAISED VALUE, PLUS THE 2.0% GUARANTEED FEE

NO MAXIMUM PURCHASE LIMIT ON HOME! (The size of the loan is determined by the income limits and the ratio limits)

Clients may buy the home that best suits their needs!

No predetermined purchase price limits!

*Newly constructed homes (spec homes) may be financed at 100% LTV if the lender has certified plans and specs and either a Rural Development approved 10-year warranty with a final inspection or a builder-supplied 1-year warranty with footer, rough-in, and final inspections. Otherwise, the LTV for these homes is limited to 90% LTV.

*The total debt against a property can exceed the value if housing assistance for closing costs or down payment is made by a state or local agency and is secured by a "soft second". Grants by the state or local agencies for closing costs or down payment assistance are acceptable. Check with your investor or secondary marketing department for any restrictions they may impose in regard to the second liens.

*New GRH loans used for refinancing an existing Rural Development GRH or Direct 502 loan can be up to 101.5% LTV when including closing costs and the 1.5% guarantee fee in the loan.



Roll those costs together for 100% financing!

Calculating the 2.0% upfront guarantee fee:

To calculate the Maximum Loan Amount & Guarantee Fee:

Purchase Price: \$120,000 Appraised Value: \$122,000 (AV)

Determine the Maximum Loan Amount: $\$122,000 \text{ (AV)} / .98 = \$124,489.80 \text{ MAX}$

If we purchase for \$120,000 + we want to roll in \$2,000 of closing costs we have a total loan amount of \$122,000

To determine the loan amount including the 2.0% upfront fee: $\$122,000 / .98 = \$124,489.80$

We are at or under the maximum loan amount! (The guarantee fee paid to RD in this example is $\$124,489.80 \times .02$ or \$2,489.80. If the buyer would have paid cash at closing for the fee, it would be $\$122,000 \times .02$ or \$2,440.00. The guarantee fee is higher when financed because the borrower is paying a fee on the fee.)

DO YOUR MAXIMUM LOAN CALCULATION TO DETERMINE WHAT CLOSING COSTS MAY BE ROLLED IN!

It may be easier to work backwards:

Appraised Value: \$125,000

Purchase Price: - \$123,500

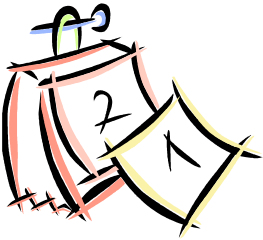
Room for closing costs/repairs: \$1,500

$\$123,500 + \$1,500 \text{ closing costs} = \$125,000 \text{ loan amount} / .98 = \$127,551.02$

\$127,551.02 is the total loan amount the lender will request from Rural Development on the 1980-21 Request for a Guarantee. This figure includes the 2.0% upfront fee.

Special Assessments

Special Assessments for work on the site actually commenced or levied prior to the date of the Offer to Purchase shall be paid by the seller, in most cases. If assumed by the buyer, properties with unpaid special assessments for site improvements, street improvements, or connection to municipal sewer and water systems are limited to 100% LTV based on the proposed loan amount AND the unpaid balance of the special assessment as long as the total LTV does not exceed 100% .



Loan Term

- 30 Year amortization only. Shorter or longer terms are not permitted. Since there are no pre-payment penalties, additional principal payments made by the borrower will shorten the loan's amortization period. For construction-permanent loans, the 30-year term begins the date of the loan modification to the permanent terms.
- Rural Development does not offer ARM's because the payment the clients qualify for today is the payment that RD wants them to be able to afford 2, 3, or 7 years from now.



Interest Rate

- The maximum interest rate charged on GRH loans may not be more than the current Fannie Mae rate (which is the Fannie Mae A/A 90 day delivery), plus 60 basis points and rounded up to the next one-quarter percent.
- Most investors provide a daily rate schedule. GRH loan applications may be submitted to Rural Development with floating or locked interest rates. Conditional Commitments issued by Rural Development on applications with floating rates will always be at the lesser of the lender's proposed rate or the current Fannie Mae rate. An actual lock date must be provided to RD. The interest rate, when locked by the applicant and lender must be at an eligible rate of interest as defined above. If a lender locks an eligible interest rate that is higher than the rate shown on their Conditional Commitment, a revised Conditional Commitment must be obtained from RD approving the higher rate.
- The Fannie Mae web site is
<https://www.efanniemae.com/sf/refmaterials/hrny/>

04/02/2007	08:15	06.10309	06.11161	06.12053	06.14093
04/03/2007	08:15	06.12500	06.13171	06.14064	06.16139
04/04/2007	08:15	06.11624	06.12285	06.13171	06.15229
04/05/2007	08:15	06.11639	06.12285	06.13183	06.15405
04/06/2007	08:15	06.12715	06.13378	06.14288	06.16521
04/09/2007	08:15	06.16528	06.17376	06.18223	06.20477
04/10/2007	08:15	06.15892	06.16813	06.18107	06.18968
04/11/2007	08:15	06.14226	06.15257	06.16104	06.17676
04/12/2007	08:15	06.15088	06.16104	06.16952	06.18538
04/13/2007	08:15	06.16952	06.17920	06.18859	06.20477
04/16/2007	08:15	06.19760	06.20699	06.21575	06.23335
04/17/2007	08:15	06.18128	06.18961	06.20003	06.21612
04/18/2007	08:15	06.11865	06.12719	06.14037	06.15792
04/19/2007	08:15	06.08931	06.09651	06.10966	06.12731
04/20/2007	08:15	06.10418	06.11251	06.12500	06.14256
04/23/2007	08:15	06.12076	06.13378	06.15685	06.17597
04/24/2007	08:15	06.10383	06.11229	06.12500	06.14511
04/25/2007	08:15	06.09700	06.10383	06.11854	06.13617
04/26/2007	08:15	06.11043	06.11681	06.13137	06.14872
04/27/2007	08:15	06.15211	06.16044	06.17376	06.19184

Example of Fannie Mae Pricing web page: 4/27/2007: 6.19184

+ .60 b.p.

Maximum Interest Rate to lock on 3/7/2007: 6.79184% rounded to 7%

*Use 30-year fixed A/A on the far right hand column for the 90-day delivery rate.

Real Estate Tax & Hazard Insurance Escrows

Lenders are required to collect and maintain monthly escrows for Real Estate Taxes and Hazard Insurance. If you are unfamiliar with setting up escrows, please allow a 2 month cushion in the account for annual tax and insurance increases.

Credit Criteria

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 2)

For borrowers with a middle credit score of 640 or above:

- A 12-month Verification of Rent (VOR) will not be required. If there are 2 applicants, both must have a minimum 640 to still qualify for the streamlined documentation option.
- Underwriters will not be required to document adverse credit history waivers under 1980.345(d - e), except for those involving a delinquent federal debt or previous agency loan, a foreclosure within the past 3 years, a Chapter 7 bankruptcy discharged within the past 3 years, a Chapter 13 bankruptcy with a completed debt restructuring plan with the previous 12 months prior to application, and late mortgage payments in the most recent 12 months.
- The representative credit score is considered to be the middle of three scores, or the lower of two.
- Non-Traditional Credit histories, or equivalent documentation, will have to be obtained for those applicants who do not have sufficient credit information to develop credit scores or only have one credit score.

No credit score isn't necessarily a bad thing!

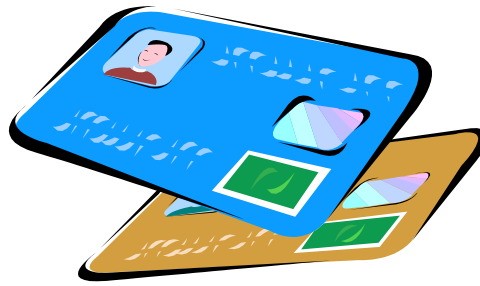
EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 8)

- Examples of acceptable non-traditional credit references include but is not limited to:
 1. Car payments made directly to a car dealer
 2. Cell phones
 3. Utilities
 4. Car/Renter's insurance
 5. Lay-a-way or installment agreements made in cash



- Compensating Factors are allowed to help justify loans for borrowers who have lower credit scores yet need higher ratios and other situations. The lender's underwriter should document waivers of recent adverse credit when they are justified and list strong compensating factors. Examples of adverse credit are listed under "*Waivers to Credit Requirements*", page 23.
- Applicants with a credit scores between 640 and 581 would statistically have a higher likelihood of default on their loan. HOWEVER, this does not make a borrower ineligible. The loan can be considered by the underwriters. Lenders should also highlight all positive aspects of the applicant's credit and employment and document that the reasons for the adverse credit were temporary in nature, and were beyond the applicant's control, and have been removed so their occurrence is unlikely.
- Layered risk associated with the application should be avoided without very strong compensating factors. Examples of layered risk may be found on page 22.
- The credit of the primary wage earner will carry the most weight in the underwriter's decision. *Example: A co-applicant that is not employed, or contributing income to the household, could have marginal credit (credit below 620). The GRH loan may still be acceptable based on the strengths of the primary applicant.*
- "Spouse Only" loans are permitted. For compliance purposes, the excluded spouse's income must also be properly verified to determine the eligibility of the household.

Consult with your investor to find the minimum number of trade lines you need to verify.



RURAL DEVELOPMENT UNDERWRITING MATRIX

CREDIT SCORE	DEBT RATIO WAIVER <i>Approved By Rural Development</i>	CREDIT WAIVER <i>Documented by lender's underwriter</i>	PAYMENT SHOCK <i>A definite risk factor!</i>
680 or higher	<ul style="list-style-type: none"> Ratio waiver is not automatic Score alone may be compensating factor Additional compensating factors will allow more flexibility in higher ratio waivers 	<ul style="list-style-type: none"> No further documentation is required, underwriter signature is sufficient. 	<ul style="list-style-type: none"> No further documentation is required, underwriter signature is sufficient.
640 to 679	<ul style="list-style-type: none"> Ratio waiver is not automatic Score is considered neutral and is not a compensating factor Need other compensating factors to support ratio waiver 	<ul style="list-style-type: none"> No further documentation is required, underwriter signature is sufficient. 	<ul style="list-style-type: none"> Payment shock is acceptable as long as there is no additional risk layering. If there is additional risk layering, underwriter should provide compensating factors to support loan approval
639 to 581	<ul style="list-style-type: none"> Ratio waiver is not automatic Credit score indicates a risk layer Underwriter should only approve loan if: <ol style="list-style-type: none"> There is very little or no risk layering. <p style="text-align: center;">AND</p> <ol style="list-style-type: none"> There are strong compensating factors or extenuating circumstances to offset a ratio waiver <p><i>Underwriter should show extreme caution in approving this loan</i></p>	<ul style="list-style-type: none"> Underwriter should only approve loan if: <ol style="list-style-type: none"> There is very little or no risk layering. <p style="text-align: center;">AND</p> <ol style="list-style-type: none"> There are strong compensating factors or extenuating circumstances to offset a credit waiver <p><i>Underwriter should show extreme caution in approving this loan</i></p>	<ul style="list-style-type: none"> Underwriter should only approve loan if: <ol style="list-style-type: none"> There is very little or no risk layering. <p style="text-align: center;">AND</p> <ol style="list-style-type: none"> There are strong compensating factors or extenuating circumstances to offset payment shock <p><i>Underwriter should show extreme caution in approving this loan</i></p>

- All borrowers must be deemed credit-worthy. Co-applicant's credit history is never ignored completely. Special caution should be taken if any applicant's score is under 640.
- Documentation to support a ratio waiver, credit waiver or payment shock needs to be provided by the lender. The underwriter's comments on the waiver should be on the 1008 transmittal summary or similar documentation.
- Sample compensating factors include but are not limited to the following: Good credit scores, conservative attitude towards credit, accumulated savings, good job history, low total debt, low payment shock, etc.
- Payment shock is when the current housing costs in comparison to the proposed housing costs will increase 100% or more. If the borrower has no prior housing cost, payment shock is automatically a risk factor.
- Lenders should not approve loans with credit scores of 580 and below if they exhibit any of the indicators of unacceptable credit per RD Instruction 1980-D, Section 1980.345(d).



Examples of Risk Layering

1. Payment Shock over 100% (see page 26)
2. Self-employment income with less than 24 months history
3. Repayment ratios exceeding the normal maximums of 29/41%
4. No cash reserves
5. No history of savings
6. No previous housing expense
7. Unstable income based on recent 24-month employment history
8. Low credit scores due to recent late pays
9. Purchasing a home with a great deal of deferred maintenance



Waivers to Credit Requirements

Underwriters must consider mitigating circumstances to establish the borrower's intent for good credit when:

1. The circumstances were of a temporary nature, AND were beyond the applicant's control, AND have been removed so as not to reoccur.
2. The adverse action or delinquency was the result of a justifiable dispute because of defective goods or services.

Underwriters must document their credit waiver on Form 1008 or a similar underwriting worksheet.

Examples of adverse credit that must be waived by the lender's underwriter and documented when the applicant's representative credit score is between 639 and 581:

- More than one 30 day late payment in the last 12 months
- Any account converted to collection in the past 12 months
- Any judgments outstanding in past 12 months
- Unpaid collection accounts, with no satisfactory arrangement for payments, no matter what their age, as long as they are currently delinquent and/or due and payable.
- Any debt written off in the past 36 months
- Two or more rent payments paid 30 days late within past 12 months
- Foreclosure in the past 36 months
- Bankruptcy discharged within the past 36 months
- Unpaid tax liens or delinquent government debts (including student loans)

Refer to the "Repayment Ratio" section below, for a comprehensive list of common compensating factors that can be considered by underwriters to support a credit waiver.

Lenders should not approve loans with credit scores of 580 or below with any indicators of unacceptable credit per RD Instruction 1980-D, Section 1980.345(d).



Collection Accounts

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 10)

It is a common underwriting practice for many conventional lenders to require the payment of unpaid collection accounts or charge off accounts prior to loan closing. If this practice is consistent with your investor's (Fannie Mae, FHLMC, and GNMA) underwriting guidelines, you should apply it to GRH loans as well.

GRH applications with representative scores over 640 for each applicant qualify for streamlined credit documentation, which would not require the payment of collection accounts prior to closing unless the lender's underwriter requires it.

Rural Development does require that delinquent credit that has the potential to affect the GRH loan's lien position be paid prior to closing.

The lender's underwriter is responsible for determining what collection accounts, if any, must be paid.

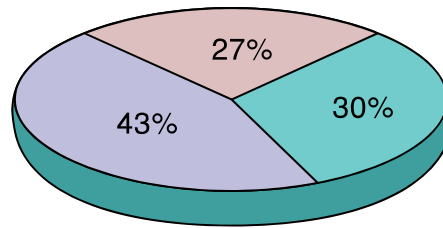
Underwriters must determine that the applicants have an acceptable credit history and document any mitigating circumstances on their underwriting transmittal if they are not requiring the payment of all collection accounts. Collection accounts enrolled in Credit Counseling are acceptable, see "Credit Counseling" for more info.



Credit History Verification

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 6)

- RMCR's, MMCR's and NTMCR's that meet the standards of Fannie Mae, Freddie Mac, HUD, and FHA/VA are acceptable for Rural Development purposes. In the case of MMCR's, tri-merged reports are preferred.
- Non-traditional credit history may be required as discussed above in the "Credit Criteria" section.
- Lenders are expected to verify a satisfactory rent payment history (VOR) covering the past 12 months. *(This is optional when both applicants have a credit score of 640 or higher.)*



Repayment Ratios

1. 29% Housing Ratio (PITI) and 41% Total Debt Ratio (TDR)
2. There is not a maximum amount the ratios may be exceeded. Depending on the strength of the compensating factors, housing ratios in the mid to high 30's and total debt ratios in the mid to high 40's are not uncommon.

RATIO WAIVERS MUST BE REQUESTED TO RD IN WRITING AND COMPENSATING FACTORS MUST BE IDENTIFIED.

3. Non-taxable income such as child support and SSI may be grossed up based on the applicant's tax bracket. If the borrower's income falls in the 10% tax bracket, his income could be grossed up 1.10%
4. All debts with MORE THAN 6 MONTHLY INSTALLMENTS REMAINING SHOULD BE CONSIDERED IN THE TDR. Other debts should be counted if they are reoccurring or otherwise have an impact on repayment ability.
5. Underwriters may request an exception to the 29/41 guidelines by properly documenting their compensating factors on the 1008 Underwriting Transmittal Summary. Rural Development must grant the ratio waiver—it is not automatic.
6. Payments on student loans are included in the TDR, whether they are deferred or not. If a payment is not established, estimate a monthly payment based on 1% of the outstanding balance.

COMPENSATING FACTORS

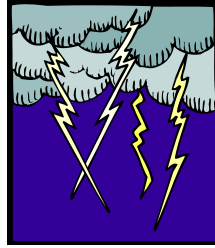
Rural Development is very eager to assist you in your efforts to expand homeownership to individuals who may have survived major credit issues, have very little to no credit, or need further flexibility in qualifying ratios. Compensating factors are a wonderful tool in strengthening applicant eligibility.

Examples of good compensating factors to document on the 1008 Underwriting Summary:

- **Credit Score of 660 or above**
- **Good job stability of 2 or more years at same employer**
- **Lender may document that credit problems were temporary in nature and beyond the borrower's control (death of spouse, divorce, illness, loss of job, etc.)**
- **Low payment shock: Rent or current housing is comparable to new proposed PITI**
- **Borrower has recently had a conservative attitude towards use of credit**
- **Borrower has recent savings or reserves**
- **Household receives compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including spousal income, second job, food stamps, and other similar public benefits**
- **Trailing Spouse Income: Borrower has recently relocated and spouse has yet to secure employment but has a history of earnings and good outlook for securing future employment**
- **Borrower has potential for increased earnings, as indicated by job training or education within the borrower's profession**
- **Credit problems are paid or old, and new credit has been reestablished**
- **Rent, utilities, cell phone, car/car insurance, child care payments can all be tracked for credit history**
- **Borrower/co-borrower attended credit/homebuyer counseling**
- **Borrower purchasing an energy efficient home (International Energy Conservation Code (IECC), 2000 ed. is a compensating factor for ratios waivers up to 31 PITI / 43 TD)**



It is the underwriter's responsibility to document compensating factors for credit waivers. Ratio waiver requests directed to Rural Development also require strong compensating factors.



Document Payment Shock

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 5)

Underwriters should document payment shock on Form 1008 or an equivalent underwriting worksheet.

Example calculation:

Current rent: \$500

New proposed PITI: \$1300

New PITI \$1300 divided by current rent \$500 minus 1 = 1.60 or 160% payment shock

No additional risk layering should be allowed in cases where payment shock is 100% or more in cases where the applicant did not have prior housing expense.

Seller Concessions

EXTRA: Administrative Notice: Lender Charges and Fees

- No Rural Development limit.

- Contact your investor or secondary marketing department. Typically, they are limited to 6%. However, some lenders may be limited to 3% depending on the servicing agreement they have with their investor.



2/1 Buydown Requests

A funded buydown account is designed to improve the applicant's repayment ability. Lenders should be cognizant of educating client(s) as to how to prepare to meet the expected increases in loan payment.

The maximum reduction which may be considered is 2% below the note rate. Reductions in buydown assistance may not result in an increase in the interest rate paid by the borrower of more than 1% per year. Buydown periods must be at least 12 months for each 1% of the buydown.

Buydowns in action

Bob's Gross Salary: \$40,000

Bob's Debts: \$300 car payment, \$100 student loan, \$20 visa = \$420 monthly

Rural Development offers expanded qualifying ratios of 29/41%. Based on Bob's gross income he can afford a home around \$120,000. But Bob has fell in love with a much more expensive house that best meets his needs. A home for \$130,000 puts his ratios at 32/45. **BOB'S LENDER SUGGESTS A BUYDOWN!**

Bob purchases the home at the list price of \$130,000 and the seller contributes 2.5% towards the buydown, closing costs, etc. **(Seller nets \$126,750: a 97.5% sales price—well within reason)** Let's look at Bob's house payments including taxes (\$250/month) and homeowner's insurance (\$50/month).

Year 1: 4% interest rate	Year 2: 5% interest rate	Year 3: 6% interest rate—LOCKS
\$920	\$998	\$1,079

Bob can now qualify for the home at 4%. Bob's new ratios are 27/40. APPROVED!!



What types of homes can I build and finance with Rural Development?

There seems to a lot of confusion regarding the proper definitions of modular versus manufactured...so here is a quick guide!

Site Built:

- Built from the ground up, built entirely at the home site
- Conforms to all state, local, or regional codes where the home is located
- Often called a “stick built” home
- A well built, cared for site-built home generally increases in value over time (location plays a key role)

Modular:

- Built in modules at a factory
- Built to conform to all state, local, or regional building codes at their destinations
- Modules are transported to the home site on truck beds, then joined together by local contractors
- Local building inspectors check to make sure the structure meets the requirements and that finish work is done properly
- Modular homes are *sometimes* less expensive per square foot than site built homes
- A well-built modular home should have the same longevity as its site-built counterpart, increasing in value over time

Manufactured:

- Formerly referred to as mobile homes or trailers
- Built in a factory
- Conform to a Federal Building Code called HUD code, rather than to building codes at their destinations
- Homes are built on non-removable steel chassis
- Sections are transported to the home on their own wheels
- Multi-part units are joined at their destinations
- Segments are not always placed on a permanent foundation, but they must be on a permanent foundation to qualify for Rural Development financing
- Building inspectors check the work done locally (electric hook-ups, etc.) but are not required to approve the structure
- Manufactured housing is generally less expensive than site built and modular homes
- Manufactured homes often decrease in value over time



New HomeFinancing & Construction Docs.

- Rural Development can guarantee construction-permanent loans.
- The guarantee is not issued until the home has been completed and the closing package (including 3.5% guarantee fee) has been received by Rural Development.
- Lenders may apply for a Conditional Commitment to guarantee a home once completed but that is currently under construction.

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (pages 27 and 28)

STREAMLINED NEW CONSTRUCTION DOCUMENTATION: The following items are to be in the lender's file, not submitted to Rural Development. The lender must be able to produce them on request during a lender review.

"Spec" Homes

- Plan certification from a qualified individual or organization that the reviewed documents comply with applicable development standards (Form RD 1924-25 "Plan Certification" is an acceptable format, but is not required.)

AND One of the Following Items

- Copy of a 1-year builder's warranty plus proof of code compliance inspections at the footing, framing, and final stages of construction
- OR**
- Copy of final inspection and a 10-year builder warranty plan acceptable to RD

Lender involved with construction contract in excess of \$10,000

All documents listed for a "Spec" home plus the following:

1. Copy of the Construction Contract
2. AD 1048: Debarment Form signed by the builder
3. Equal Opportunity Forms
 - 400-1: EO Agreement signed by borrower
 - 400-6: Compliance Statement signed by the builder
4. Document that an Equal Opportunity Poster was given to the builder

NOTE: Builders may self certify plans, but they must provide an acceptable 10 year warranty policy and a final inspection. Providing a one year builder's warranty is no longer an option if the builder self certifies.



NEW Manufactured Homes

- Existing manufactured (HUD code) homes are NOT permitted unless already financed by Rural Development (GRH or Direct 502 loan).
- Underwriters (and appraisers) must determine whether the unit is a “manufactured” or a “modular” home. There are no restrictions on a modular home, even though they are built off site. Modular homes meet all the same local building code requirements as “stick built” homes.
- Existing homes that have the characteristics of a manufactured home must be underwritten carefully to verify that the home (or any part of the structure) is not a manufactured (HUD code) home.
- Some appraiser comments or characteristics to watch for include:
 1. Mobile/manufactured home appearance
 2. Presence of FMHCSS tag on the dwelling
 3. Floor plan
 4. Slab or pier foundation
 5. Presence of skirting
 6. Feature board walls
 7. Metal structural components
 8. Evidence of ownership is a title
 9. Furnace and water heater is located on the main floor
 10. Tops of windows lower than the tops of doors
- New manufactured homes must be purchased, installed and warranted from an agency approved Dealer—Contractor.
- A list of Dealer - Contractors approved for Indiana are on our website: <http://www.rurdev.usda.gov/in/family/insfh.htm>. Dealers not listed on our approved list should contact any RD Office for the application and requirements for becoming an approved Dealer - Contractor.

- Dealer - Contractors must use a single construction contract to include the purchase of the home, installation of the home on a permanent foundation, and any other site development work.
- No "do it yourself" work by the applicant is allowed.
- The Dealer—Contractor must provide a 12 month warranty on all work completed under the construction contract, including the work completed by their sub-contractors.



- The set up requirements for Rural Development are different than those of FHA/HUD. The manufactured home must be financed as real estate along with the site.
1. The home must be permanently installed on the site with all running gear and towing equipment removed.
 2. All foundation types must have a frost protected footings or perimeter.
 3. Acceptable types of foundations for manufactured homes include anchor ties to footings, full basements, crawl spaces, and concrete slabs. All foundation footings or perimeters must be frost protected and enclosed with a permanent building material such as concrete, cement blocks, or treated wood.



Modular Homes

Modular Homes are designed and constructed to meet all requirements of the Indiana Residential Code, or other local code required for its destination, same as site-built construction. This is not the same development standard used for manufactured homes or “double-wides”, which meet a national safety and construction standard often referred to as HUD code. GRH loans on new modular homes are processed the same as stick-built homes.

Rural Development in Indiana does not require the second construction inspection (referred to as the “rough-in”) for modular homes since they are constructed and inspected while in the factory. These homes are typically delivered to the site with the interior walls enclosed.



Existing Homes

Rural Development wishes to ensure that clients are purchasing safe, sanitary, and sound homes free of major defects and repairs. Many clients do not have large savings accounts to pay for major repairs in the event the roof begins to leak, or the septic explodes. Rural Development offers flexible inspection requirements to determine property condition.

ATTENTION

RURAL DEVELOPMENT IS ONLY GOING TO REQUIRE RD SPECIFIC REPAIRS TO BE COMPLETED. HOMEBUYERS SHOULD NOT RELY ON RURAL DEVELOPMENT TO ENSURE COMPONENTS OF THE HOME OR STRUCTURAL SOUNDNESS BASED UPON RD'S LIMITED INSPECTION.

FHA relaxed many of their inspection requirements for existing properties by updating HUD Handbook 4150.2.

REMEMBER, RURAL DEVELOPMENT INSPECTION REQUIREMENTS FOR GUARANTEED LOANS ARE NO MORE RESTRICTIVE THAN FHA. Please review these changes and do not make any of these items a condition for repair on the conditional commitment. RD Instruction 1980-D, 1980.341(b) references HUD's requirements so RD's guidance is updated as well.

FHA and Rural Development no longer require repairs for minor cosmetic deficiencies; for example:

- Missing handrails
- Cracked or damaged exit doors that are otherwise operable
- Cracked window glass
- Defective paint surfaces in homes constructed post-1978
- Minor plumbing leaks (such as leaky faucets)
- Defective floor finish or covering worn through the finish, or badly soiled
- Evidence of previous (non-active) Wood Destroying Insect/Organism damage where there is no evidence of unrepaired structural damage
- Rotten or worn out counter tops
- Damaged plaster, sheet rock, or other wall and ceiling materials in homes constructed post- 1978
- Poor workmanship
- Trip hazards (cracked or partially heaving sidewalks, poorly installed carpeting)
- Crawl space with debris and trash
- Lack of an all weather driveway surface

FHA and Rural Development inspection policies:

- **Wood destroying insects/organisms:** If a pest inspection is required by the purchase agreement, the lender, or the appraiser, RD would like a copy of it. RD will not require a pest inspection on its own.
- **Septic:** Both RD and FHA will require a third party test only if the appraiser or inspector orders it, or state/county/city regulations mandate it.
- **Flat or unobservable roof:** No longer required. Appraiser will note any possible problems from the interior of the property (evidence of leaks, water spots, etc.) At least a 3/12 pitch is highly recommended, however
- **Well:** Rural Development requires all private wells and individual water supplies to be tested per 1980.313(c) and 1980.341(c). FHA will only require this in some cases...this is one difference between RD and FHA.

Conditions that will continue to require automatic inspections include but are not limited to:

- Standing water against the foundation and/or excessively damp basements
- Hazardous materials on the site or within the improvements
- Faulty or defective mechanical systems (electrical, plumbing, or heating)
- Evidence of possible structural failure (e.g. settlement or bulging foundation wall)



EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 26)

An FHA roster appraiser or other appraisers determined by the lender to have thorough knowledge of HUD Handbooks 4905.1 and 4150.2 may certify that the property complies with HUD standards. (See Appraisal Issues on page 39.) Otherwise a whole house inspection will need to be done by a home inspector licensed in Indiana. Contact your local RD office for an optional inspection summary form.

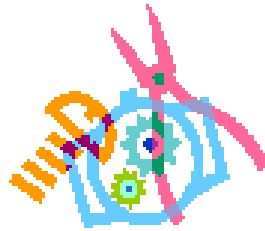
Any repairs required on the appraisal must be completed or an escrow account established at 1.5 times the estimated cost to complete the work before Rural Development can issue a Loan Note Guarantee. However, the loan can be approved and the conditional commitment can be issued subject to the completion of the repairs.

No other loan program will allow escrowed repairs, or repairs in general to be rolled into the cost of the loan. Rehabilitation products will, BUT the credit standards and money to close can become an issue. Rural Development IS NOT a rehabilitation loan, but RD will help finance basic necessities such as roof, windows, insulation, and other improvements that keep the home in excellent condition for the borrower.



Please Note:

It is the HOMEBUYER'S responsibility to be an informed buyer. Homebuyers have every right to carefully examine the systems and structure of their potential new home. A home inspection is a smart investment to protect against expensive repairs. If a homebuyer has obtained a state licensed home inspection report, Rural Development can review the report to determine if any repairs will be needed to meet RD minimum property standards. **THE INSPECTION COMPLETED WITH THE URAR (1004) APPRAISAL WILL BE REVIEWED FOR RURAL DEVELOPMENT PROPERTY STANDARDS ONLY.** Rural Development recognizes that the appraiser may note other noticeable deficiencies they observe however the lender should counsel the client that many of these observations may not be required to be corrected.



Repair Escrows

If major repairs are noted during an appraisal:

- Septic system is deteriorated
- Smoking or dead furnace/AC
- Broken windows
- Siding needs replacement, or siding is needed
- Many other repairs may apply

The lender should escrow 150% of the bid amount for materials and labor for these repairs.

- The escrow agreement must be based on a signed contract and allow for completion of the work within 120 days of the work commencing.
- The home must meet decent, safe, and sanitary requirements when the work is done.
- Rural Development will not delay issuing the Loan Note Guarantee to the lender if an escrow account is established for needed repairs.
- The escrow account may be funded with loan funds or from cash reserves from the borrower or from the seller. Once work is completed any remaining money left in escrow funded with loan proceeds will go back onto the principal of the loan.
- IF THE CLIENT PUT THEIR OWN MONEY INTO THE ESCROW ACCOUNT THEY ARE ENTITLED TO REMAINING FUNDS NOT USED.



Appraisal Issues

There have been significant changes to the recently issued guidance regarding acceptable appraisal formats for Guaranteed Rural Development loans.

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 26)

Rural Development's required inspections can be incorporated into the URAR (1004), AND can be performed by an appraiser that the lender deems qualified. The UAD format is required.

A lender may deem an appraiser qualified that is a:

- **FHA roster appraiser or**
- **Certified General Real Estate Appraiser (153) familiar with HUD Handbooks 4150.2 and 4905.1 or**
- **Certified Residential Real Estate Appraiser (156) familiar with HUD Handbooks 4150.2 and 4905.1**

Lenders need to have appraisers note that the dwelling meets HUD Handbooks 4150.2 and 4905.1 to document compliance with this requirement. One suggested area for this comment would be on page 3 of the 1004 in the "Additional Comments" section.

Cost Approach/Site Value Update

The cost approach is required by 1980.334(b)(1) **only** when the dwelling is less than one year old **or** the appraiser believes that the cost approach is needed as an indicator of value.

In all cases, the site value is required to be documented so that a modest site determination can be made as required by 1980.313(e).

Estimated Remaining Economic Life is not required by Rural Development when the cost approach is not completed.

- An appraisal is not required when refinancing the **PRINCIPAL ONLY** of an existing Rural Development GRH loan. It is required on all cases of refinancing a Direct 502 Loan. See the section titled, "Refinancing".
- Appraisals should be done on an "as improved" basis if repairs are required to meet HUD standards.
- The appraisal must be less than six months old for home purchase transactions and less than one year old for refinance transactions.

- Appraisals on new homes (under 12 months old and not previously occupied) must include a detailed “cost approach” appraisal based on a nationally recognized cost handbook. Two common handbooks are the Marshall & Swift Residential Cost Handbook and the Boech Residential Cost Handbook.
- Appraisals must contain at least 3 comparable sales that are less than 1 year old. The gross and net appraisal adjustments must be conforming to conventional underwriting and USPAP guidelines.

QUICK RD APPRAISAL GUIDE

The URAR: FNMA Form 1004/ FHLMC Form 70

The revised form **must include a cost approach if the property is less than one year old** and 3 comparable sales. The new revision excludes information on manufactured homes and condominiums.

The Manufactured Home Appraisal Report

FNMA Form 1004C/FHLMC Form 70B has been combined into one appraisal report for use only on NEW manufactured homes. Rural Development guarantees only NEW manufactured homes built by an approved dealer-contractor.

The Individual Condominium Unit Appraisal Report

FNMA Form 1073/FHLMC Form 465 has been revised; this property type is no longer indicated on the URAR. The revised form excludes exterior inspections. Appraisals with interior inspections for condominiums should be completed on this form. **Again, a cost approach is NOT optional for properties less than one year old.**

The Appraisal Update and/Or Completion Report

FNMA Form 1004D/FHLMC Form 442 has been revised. It now includes sections for property information, the summary appraisal update, the certification of completion, and signatures. This form should also include photographs when applicable.

The following appraisal forms are NOT accepted by Rural Development for loan originations:

- **The Exterior-Only Inspection Individual Condominium Unit Appraisal Report (New FNMA Form 1075/FHLMC Form 466)**
- **The Exterior-Only Inspection Residential Appraisal Report (New FNMA Form 2055/FHLMC Form 2055)**
- **The Desktop Underwriter Quantitative Analysis Appraisal Report (Old FNMA Form 2055)**
- **Loan Prospector Quantitative Analysis Report (Old FHLMC Form 2055)**

Questions regarding appraisers and appraisal forms may be directed to your local Rural Development office.



Site and Building Requirements

Refer to the National Regulation RD Instruction 1980-D, paragraphs 1980.312-1980.314 for more information.

- Maps are available at <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do> to view the county maps showing the areas eligible for GRH financing in Indiana.
- Dwellings financed should be of a residential nature and not closely associated with farm service buildings or commercial/industrial property. *(Underwriters typically expect reasonable zoning compliance. A good rule of thumb is that homes lacking residential zoning should be bordered on three sides by residential types of property.)*
- Income producing structures (including side by side duplexes: buy both live in one half, rent out the other) or farm land cannot be financed.
- Rural Development may not finance properties with farm related structures like grain bins, silos, and animal confinement buildings. We can not finance a property with a building which was built to house animals or animal feed regardless of the current use. Large wooden barns built around 1900 fall into this category. We CAN finance buildings that were built for general storage, as long as they are still being used for this purpose, regardless of the size or contributory value. (If the building has animal pens or a business in it, or animal fencing around it, it is not eligible.)
- In-ground swimming pools are permitted on a case by case basis. A waiver must be approved by the State Office to allow us to guarantee the loan. Any value attributed to the pool will be deducted from the appraised value. Any value attributed to above ground pools will also be deducted from the appraised value since they are viewed as personal property.

- Non-income producing sites can be financed regardless of size as long as the site value is less than 30% of the total value. The 30% limitation may be exceeded if the site cannot be further subdivided for residential purposes and the site value is typical for residential sites in the area.
- Hobby farms and farmettes are not eligible for financing since they generally include income producing land and structures.
- Property must be contiguous to and have direct access from a street, public road, or driveway. Streets and roads must be hard surfaced or an all weather surface (i.e. not a single land dirt road). Shared driveways are permitted as long as the access to the property is transferable with the title to the property and there is a shared maintenance agreement in place.



Condominiums

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 29)

- Condominiums, Planned Unit Developments (PUD), or other dwellings served by a home owners association (HOA) may be accepted when the project has been approved or accepted by HUD, VA, FNMA, or FHLMC. *(The lender's underwriter is responsible documenting the acceptability of the condo based on secondary market criteria. Unwarrantable condos cannot be accepted.)*
- First Right of Refusals in Condominium Documents CAN BE OVERLOOKED IF there is no evidence of discrimination present in the purchase contract.
- Small residential condominiums that are not served by a home owners association (HOA) based on the condominiums documents, may be eligible for GRH financing. *(The lender's underwriter must determine the acceptability of the project's condo documents.)*



Well and Septic Inspections

- Distances between wells and septic tanks and septic fields must comply with state and local health department requirements. Appraisers do not have to pinpoint the exact location of septic tanks or septic fields. Appraisers are looking for obvious signs of septic failure.
- Non-conforming wells and septic systems must be brought into compliance with current standards codes to ensure safe and sanitary dwellings.
- Basement wells are illegal and must be relocated outside of the dwelling's foundation. Pit wells and dug wells must be brought into compliance with current standards.
- Driven point wells may be eligible depending upon the well's location, type of installation, and capacity. Approximately 5 gallons per minute (GPM) is considered an adequate well capacity to supply a normal household.
- All private wells must be tested for bacteria, and should be tested for nitrates and any other contaminants known to cause health hazards in the area. The water tests must be considered "safe" based on EPA drinking water standards.
- If the appraisal notes no adverse comments regarding the septic system then NO additional third party inspection has to be conducted.

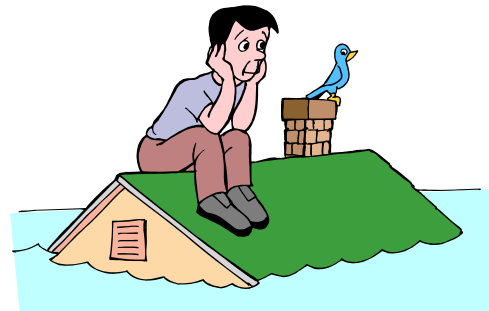
IF THE APPRAISAL PROFESSIONAL ORDERS AN ADDITIONAL SEPTIC INSPECTION LENDER'S MUST COMPLY.

- All types of state approved septic systems are eligible.
- The septic inspection report, if necessary, must clearly describe the type of system, the adequacy of the system relative to the dwelling's size, compliance with current septic codes, and comment on any evidence of failure.

- Holding tanks will be accepted for new construction financing only if approved by the local health authorities.



Cheers to safe drinking water, and sanitary septic!



Environmental Issues

- Lenders must submit FEMA Form 81-93, Standard Flood Hazard Determination, with each GRH Loan application. Lenders typically obtain a life of the loan certification from the provider of the determination.
- Flood Insurance is required anytime the foundation of any dwelling is located in Zone A (100 Year Flood Zone). An elevation survey showing that the first floor elevation of the property is above the 100 year flood zone is also required.
- The buyer may roll the cost of the first year premium into the loan note (as long as 100% Appraised Value is not exceeded.)
- Property located in unmapped areas (Zone D) or in communities that do not participate in the National Flood Insurance Program (NFIP) will require further investigation by Rural Development to see if these areas are eligible for financing.

- More information about FEMA, including Letters of Map Revision (LOMR) and Letters of Map Amendment (LOMA) can be found at:
www.fema.gov/mit/tsd
- Abandoned underground storage tanks must be removed from the site or filled with sand and capped.
- Properties with asbestos on the interior of the dwelling (typically found on the heating ducts in older homes) must have the asbestos material encapsulated or removed by a qualified individual.
- Since homes build prior to 1978 may contain lead-based paints, lenders should ensure that their applicants have received a copy of Addendum S- Lead Based Paint Disclosures and Acknowledgements, as part of their Offer to Purchase.



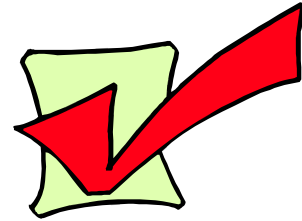
Homebuyer Education

Rural Development does not require that our applicants complete a Homebuyer Education course.

Rural Development would encourage and support any program conducted by the lender that is approved by Fannie Mae, Freddie Mac, FHA, VA, or IHCD.

The National Foundation of Credit Counseling (NFCC) publishes the “Keys to Homeownership”, an excellent homebuyer education workbook. Copies can be purchased by contacting NFCC Housing Department at (301) 589-5600, ext. 20.

A Housing Counselor’s directory is available on the HUD website at:
www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm



Other Applicant Eligibility Criteria

- Refer to RD Instruction 1980-D, paragraph 1980.346 for more information.
 - Applicants may rent out a current home in order to purchase a new home with guaranteed financing if the current home is further than 50 miles from the new home, or the current home is structurally or functionally inadequate. The dwelling retained may not be financed with a Section 502 Direct or Guaranteed loan.
 - Applicants must personally occupy the dwelling.
-
- Applicants must be a U.S. Citizen, a U.S. non-citizen national or a “qualified alien”.
-
1. Applicants who indicate “No” to Item J in Part VIII of their application indicating that they are not a U.S. Citizen must provide documentation indicating their immigration status.
 2. A copy of the front and back of INS Form I-551, Alien Registration Receipt Card (for permanent resident aliens) is the most common type of documentation obtained by lenders. If you can provide our staff with the applicant’s alien identification number and a copy of the front and back of the document where you obtained the number, we can check the SAVE system to verify that the applicant is eligible for assistance.



Retaining an Existing Home as Rental Property

EXTRA: Administrative Notice: Underwriting and Loan Closing Documentation Matrix (page 19)

- Generally borrowers must sell their existing home (or manufactured home) prior to closing. However, borrowers may retain property that does not meet their current needs, is structurally unsound, or is outside of the commuting area.
- Refer to RD Instruction 1980-D, paragraph 1980.347(d)(3) for more information regarding proper documentation.
- The client should present a lease agreement stating the monthly rent.
- The underwriter can offset the PITI on the rental property by 75% of the rental income. Include net rental income in adjusted income to determine eligibility for the program. Net debt is counted as zero for adjusted income. For repayment income, the PITI on the rental property can be offset by 75% of the rental income only if the property has been rented for the past two years. Net income is included in repayment income, and net debt is included in the total debt ratio. If not rented for 2 years, the entire PITI must be included in the total debt ratio for the new house.



Reasonable Costs and Fees

- Lenders may charge normal and customary fees for their services as long as their fees do not exceed the charges or fees routinely made by the lender for similar transactions such as Fannie, Freddie, IHCD, FHA or VA.
- Other conforming high LTV home mortgage products (excluding sub-prime) can also be used for comparison. This documentation is not routinely requested as part of the loan application process unless the fees observed on the Good Faith Estimate appear to be unusually high for that market.
- The 2.0% upfront Guarantee Fee should not be included when making the comparison.
- Discount points may only be charged in cases where the interest rate is being bought down below the current Fannie Mae rate.
- Discount points can only be financed with loan funds for low income applicants.



Rural Development Turn Around Time

- Rural Development strives to respond within 24 – 48 hours of receiving a complete (underwritten) application.
- Lenders will be notified immediately if their application package is incomplete.

- While RD is not underwriting the loan, we must verify that certain applicant and property compliance issues have been met.
 1. Verification of credit waivers if necessary
 2. Double check household income for compliance
 3. Complete an appraisal review and environmental compliance
 4. Review ratio waiver documentation if necessary, etc.
- Depending on the availability of staff and the quality of your package, many files are reviewed and approved the same day they are received. If a request cannot be reviewed within 48 hours, the lender will be notified with the reason for delay.

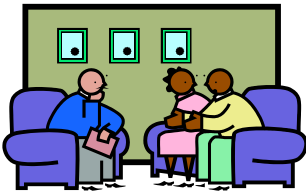


Getting Started

- Educate your loan originators, processor, underwriters, and closing department.
- Indiana has 6 local offices located throughout the state that process GRH loans. They may process loans anywhere in the state. Our State Office is located in Indianapolis.
- Lenders should request GRH training from their nearest Rural Development office or by contacting the State office.
- Thoroughly review this manual.
- RD-Instruction 1980-D and the referenced Administrative Notices (ANs) are for further guidance. CALL RURAL DEVELOPMENT-- ASK QUESTIONS!
- This handbook is available at any Rural Development Office, and the referenced AN's are available for viewing and downloading at the following website:
http://www.rurdev.usda.gov/regs/an_list.html
- Review the GRH Loan Application Processing Checklist.
- Review the "Processing Guide" on page 59 to understand the typical "file flow".

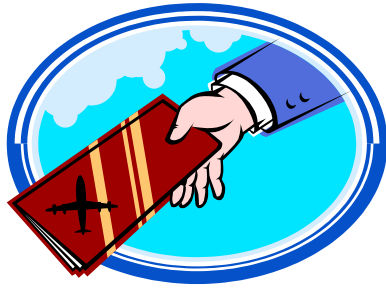


Help Make Homeownership Wishes.....Reality!



Credit Counseling

- Indiana Rural Development WILL allow clients currently enrolled in credit counseling to be eligible for a loan through the Guaranteed program.
- Credit Counseling demonstrates a borrower's initiative in resolving their debts in a responsible manner.
- Rural Development would prefer the borrower have been enrolled and making timely payments for a minimum of 6 months. Canceled checks, or a print out from the Debt Counseling Agency will be sufficient evidence of timely payments.
- If the borrower has been in counseling for less than 6 months STRONG compensating factors must be present. (See "Repayment Ratios" for a list of compensating factors that may be most commonly used.)
- Enrollment in credit counseling also satisfies requirements for collections a borrower may have that need "satisfactory payment arrangements". If it is a medical collection, most insurance companies or physician offices will assist in payment arrangements as well.



Submitting the Loan

Indiana Rural Development has 6 Local Offices that process GRH loans. Lenders are encouraged to build a partnership with their local office for questions and loan approval.

- RD may issue Conditional Commitments to seller/servicer lenders who retain the servicing of the GRH loans they originate and prefer a decentralized method of program delivery.
- RD may also issue Conditional Commitments to participating lenders or investors who underwrite GRH loans on behalf of loan originators or mortgage brokers.
- RURAL DEVELOPMENT SHOULD ONLY RECEIVE COMPLETE FILES UNDERWRITTEN BY A PARTICIPATING LENDER. (See “Lender’s Origination Submission Checklist” in RD AN No. 4575 (1980-D).)
- LENDERS SHOULD NOT SUBMIT ONE PACKAGE TO RD AND ONE TO THEIR UNDERWRITER SIMULTANEOUSLY.

Changing the Loan Amount or Interest Rate



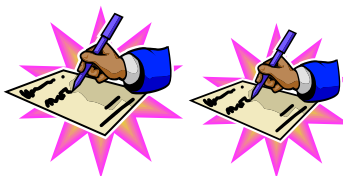
Once [Form RD 1980-18](#), Conditional Commitment for SFH Loan Guarantees, has been issued to a lender, no increases to the loan amount or interest rate are permitted without prior written concurrence from Rural Development.

Lenders must NOT close a loan at an interest rate or dollar amount higher than indicated on the Conditional Commitment without RD's knowledge!!

Decreases in the loan amount or interest rate DO NOT require Rural Development concurrence.

An eligible increase in the loan amount can be approved.

- The lender must submit a revised Form 1008, and Form 1980-21 indicating the proposed use of the loan funds.
- If the new repayment ratios exceed the 29/41 guidelines, the lender must request a ratio waiver as described in the "Repayment Ratios" section.
- A revised Conditional Commitment will be issued to reflect the increased loan amount, if approved by Rural Development.
- Verbal concurrence may also be available from Rural Development to expedite the process.
- Increases of less than \$500 will not be approved.



Do NOT close the loan until both your underwriter's and Rural Development's conditions have been satisfied.



Guaranteed Underwriting System (GUS)

EXTRA: Administrative Notice: Guaranteed Underwriting System

Rural Development now offers an optional automated underwriting system known as GUS. It offers numerous benefits to lenders:

- Faster loan decisions, within seconds of inputting borrower information, providing lenders with a simple and cost-effective electronic loan submission alternative
- Consistent and objective credit risk evaluation
- Ability to reach a greater number of qualified borrowers
- Ease of use – simple and available 24 hours a day to users
- Lower processing time and origination costs at no fee to users
- Minimal documentation required for applications which receive an “accept” message – The lender only submits a copy of the appraisal, flood certification, and RD Form 1980-21, “Request for Single Family Housing Loan Guarantee”

GUS does not reject applications!

- GUS may generate “refer” or “refer with caution” messages
- These messages merely indicate that these applications should be manually underwritten the way they would if they had not been submitted through GUS

Lender training is available in the USDA LINC log on

- Go to <https://usdalinc.sc.egov.usda.gov/>
- Under "Single Family Guaranteed Rural Housing" click on "Training and Resource Library"
- Scroll down to "Guaranteed Underwriting System (GUS)" click on "GUS Lender Overview Training"

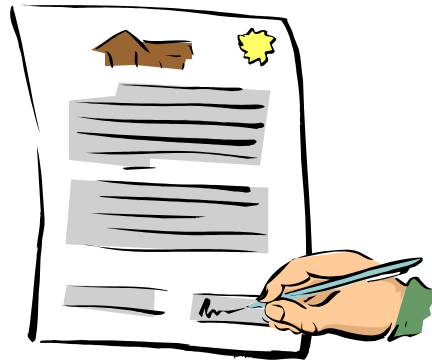
Contact your local Rural Development office to sign up for GUS



Loan Closing

- If requested, Rural Development will review your documentation prior to closing to verify that you have satisfied the conditions listed on the Conditional Commitment.
- Make certain that the loan amount and interest rate matches (or is less than) the amount and rate shown on the Conditional Commitment.
- Make sure the Guarantee Fee is 2.0% of the FINAL loan amount for purchase transactions or 1.5% for refinance transactions.
- Make sure the borrower does not get cash back from loan funds at closing. The borrower may be refunded any expenses he previously paid like the appraisal fee, credit report fee, etc. Tax prorations may not be given to the borrower.

- Submit the closing package and guarantee fee to the Rural Development office that issued the Conditional Commitment. (See the "Loan Closing Checklist, in RD AN No. 4575 (1890-D).)
- Upon receiving [Form RD 1980-17](#), "Loan Note Guarantee" from Rural Development, attach it to the original promissory note as evidence of the guarantee.



Loan Note Guarantee Coverage

Rural Development's guarantee provides lenders with better protection than most types of mortgage insurance at a lower cost to the applicant. Because of the high quality of our guarantee, GRH loans are saleable on the secondary market, resulting in good value for both lenders and homebuyers.

- Lenders are protected 100% on the first 35% of the Original Loan Amount. Any loss in excess of the first 35% is covered by an 85% guarantee.
- The following briefly explains the loss claim process:

1. Add all unpaid accrued interest, principal, foreclosure costs, all REO costs, interest from foreclosure date to REO sale (maximum of 6 months), and all REO sales expense to determine gross investment. Subtract gross REO sale price from gross investment to determine the loss.
2. Multiply the original loan by 35%
3. Rural Development pays the lesser of all loss determined in Step 1 or 35% of the Original Loan
4. RD pays 85% of any loss remaining unpaid from Step 3.

The maximum loss payable is 90% of the original principal borrowed.

For more information on electronic reporting call 877-636-3789. For information on loss claims and the servicing of GRH loans call 866-550-5887.



Replacement Forms

Official Agency forms can be downloaded from the following website:

<http://www.rurdev.usda.gov/regs/formstoc.html>



GRH Web Resources

- The National Regulation for GRH loan program is RD Instruction 1980-D. The income limits are an attachment to that regulation referred to as Exhibit C. The 1980-D regulation is particularly useful for answering questions regarding income and adjustments to income.
- Other regulations that cover parts of the program are RD-Instruction 1924-A (construction issues), RD 1940-G (environmental), RD Instruction 426.2 (flood insurance, construction in flood zones).
- The National Rural Development regulations referenced above can be downloaded from the website: <http://www.rurdev.usda.gov/regs/>.

- Current Administrative Notices (AN's) referenced in this handbook can also be found at: http://www.usda.gov/regs/an_list.html.



Rural Development Home Pages

- The USDA- Rural Development national home page is located at: www.rurdev.usda.gov. Look for the Single Family Housing Programs. There is a map where you can click on a State to find out more information about that State's programs. This is useful for finding GRH contacts in other states.

This site will allow you to enter a property address to determine if the location is eligible for Rural Development assistance.

Property Eligibility:

- Go to <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- At the Left on the menu, under "Property Eligibility" click on "Single Family"
- Click "Accept" to move forward to the property site
- Have your complete address including zip code: Type into proper fields, click "Retrieve Map" and your address will be mapped to its exact location AND determine if it is eligible or ineligible.
- IF YOU HAVE NO ADDRESS: Click on the State of Indiana on the US Map, to the Right there will be a list of counties that contain INELIGIBLE areas. If you do not see your county listed, GOOD NEWS—that entire county is eligible.
- If the county in question IS on the list to the right, click on the county name and a map of the INELIGIBLE areas should appear in dark yellow background. Any areas in light tan are eligible.

INDIANA HAS 92 COUNTIES:
91 counties are eligible
67 counties are 100% eligible
Only Marion County 100% ineligible



Other Useful Sites

The following websites may be useful to you when looking for information on the GRH loan program and other homeownership related issues.

www.rurdev.usda.gov/rhs : USDA Rural Development National Office website. Agency information and USDA e-forms are available here. Click on [Guaranteed Home Loan Opportunities](#).

www.hud.gov/groups/lenders.cfm : HUD information for lenders on various home financing topics, including required disclosures. This site provides access to the HUD reading room where you can obtain handbooks, mortgagee letters, and forms. A link is also available to search for FHA approved condominiums.

<https://entp.hud.gov/idapp/html/apprlook.cfm> : This site provides a list of FHA appraisers who may be qualified to certify a property's compliance with HUD Handbooks 4150.2 and 4905.1.

<http://www.benefits.va.gov/homeloans/> : This site contains lender and applicant information for the Federal VA Home Loan program.

www.fema.gov : Information on the National Flood Insurance Program (NFIP) and FEMA Form 81-93, Standard Flood Hazard Determination, can be found here.

<http://www.efanniemae.com/sf/refmaterials/hrny/index.jsp> : This site provides access to the current FNMA rate used by the GRH loan program.

DISCLAIMER: The material is mostly in bulleted format. It does not contain the full context of the Agency regulations. This is intended to be a brief overview

that incorporates the essence of the Agency's national regulation and Indiana specific requirements. Because it is Indiana specific, it may not be suitable for use in other states. The information contained herein should provide adequate information for the processing of the majority of your GRH loans. Underwriters should consult with the agency Guaranteed Housing Specialists or your local Rural Development Managers for guidance in unusual cases.



Rural Development Loans and YOU!

Something to CHEER about!



GRH PROCESSING GUIDE

- i. Complete Form [1980-21](#) with the applicant at the time of application.
- ii. Complete your loan origination package: Submit to your underwriter.
- iii. If your underwriter or investor approves the loan, they will send RD a complete package (See the "USDA-Rural Development Guaranteed Rural Housing Processing Checklist" on page 59.) with the underwriter's approval and supporting documentation. Do not submit your loan packages simultaneously to your underwriter and Rural Development.
- iv. Rural Development will review the underwritten application package and issue a Conditional Commitment within 24-48 hours of receiving a complete package, indicating any approval conditions directly to the underwriter.

- v. The underwriting lender will inform the originating office and closing department of the loan conditions set by both the underwriter and Rural Development.
- vi. The closing lender closes the loan if all underwriter and Rural Development conditions have been met.
- vii. The underwriting/closing lender submits a closing package to Rural Development to obtain the Loan Note Guarantee. Refer to the “Loan Closing” section for more information.
- viii. Rural Development issues the Loan Note Guarantee to the approved underwriting/closing lender.
- ix.** The Loan Note Guarantee must be attached to the original promissory note as proof of guarantee in the event of a loss.



Rural Development and YOU!
Helping MORE buyers achieve the dream of
homeownership!

